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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Inflation Has Returned . . .

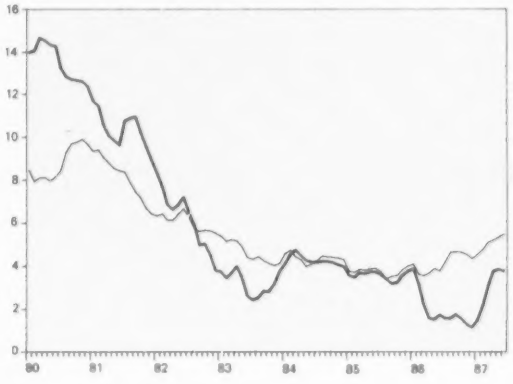
One of the more welcome developments which has accompanied the current economic expansion has been the slowing in the rate of inflation–that is until recently. Over the past six months, the Consumer Price Index (CPI) has risen at a 5½ percent annual rate–2½ times the rate of rise posted in the previous six-month period and 4½ times the increase registered in the 12 months ending December 1986.

During 1986, falling energy prices almost single-handedly held down inflation, and some analysts advance the argument that energy is the sole culprit behind the resurgence of inflation this year. But this is not the case. Even excluding the volatile and much talked about food and energy components, the rate of rise in the "core" CPI is accelerating. During the first half of 1987, the CPI excluding food and energy jumped 4½ percent at an annual rate. This compares with a 3.7 percent increase in the previous six-month period.

Although it is true that rising energy costs are adding to inflation this year, there are many other factors which are responsible as well, one of which is rising labor costs. Since labor costs account for about two-thirds of all business expenses, rising labor costs generally translate pretty quickly into higher wholesale and retail prices. Much has been heard recently about how improving productivity in manufacturing industries helped produce a 1.6 percent drop in unit labor costs in that sector. But this does not tell the whole story, since the manufacturing sector of the economy accounts for only one-quarter of the business "pie." In the nonmanufacturing sector, the other 75 percent, productivity *declined* 1.2 percent in the first quarter of 1987, year over year. This decline in productivity, combined with a 2.1 percent increase in labor costs, led to a 3.3 percent jump in nonmanufacturing unit labor costs, following a 3.1 percent jump for 1986 as a whole.

Since job security is still an important issue, a rapid pick-up in the rate of rise for wage settlements is not likely, near term. However, bargaining could get tougher in some industries. Labor may decide to flex its muscle and try to regain ground lost over the past few years, buoyed by the fact that the civilian unemployment rate, at 6.1 percent, is now at its lowest level in 7½ years.

MH COST OF LIVING INDEX (THIN) VS. CPI (THICK)
(12-MONTH PERCENT CHANGE)



. . . Led By Costlier Imported Goods . . .

Another indicator of a rising trend in inflation is higher-priced imports. With the U.S. dollar down about 30 percent, on average, against our three largest trading partners since its peak in February 1985, it is not surprising that prices of imported goods have risen an average of more than 10 percent at an annual rate over the last three quarters, compared with a drop of about seven percent in the previous three.

Although it is difficult to ascertain the exact portion of a consumer's budget that goes toward the purchase of imported items, a few examples indicate that it is an important factor in consumer inflation. For instance, about 30 percent of all automobiles purchased in the U.S. are imported, an estimated 50 percent of apparel products bought here come from overseas, and more than 80 percent of all shoes purchased in the U.S. are made outside the country. Therefore, this increase in imported goods prices should continue to affect the CPI figures for months to come.

Another barometer of future inflation trends is the Producer Price Index for finished goods (PPI). The PPI mainly covers items

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made by U.S. manufacturers and is one stop short of the retail level. It does not track higher-priced imported items that consumers buy which are included in the CPI. Since the end of 1986, the PPI has risen at a 4.5 percent annual clip, the briskest six-month pace in almost five years. And the recent run-up in prices of intermediate materials excluding food and energy indicates that larger increases may be seen in the PPI down the road. Over the past six months, this intermediate index, which measures the change in the prices of items before they reach the finished-goods stage, has risen at a 3.8 percent annual rate. This is the fastest six-month increase in over three years and the rate of rise has been climbing steadily for more than a year. In fact, a year ago, this index was showing a decline over a six-month period.

. . . And Rising Commodities Prices

Another factor which shows that more inflation could be working its way through the manufacturing sector's distribution channels is the increase in oil and non-oil industrial commodities prices. Late last month, the spot price of West Texas oil topped $22 per barrel—the highest level in 18 months and a 74 percent increase since

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/15/87)	165,578	+ 88	+ 11,254
New York City (7/22/87)	36,998	+ 88	+ 3,535
Commercial Paper (7/22/87)	354,150	– 935	+ 29,787

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/15/87)	273,088	– 766	+13,391
New York City (7/22/87)	57,968	– 528	+ 2,418

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/15/87)	792,670	– 208	+49,285
New York City (7/22/87)	170,641	– 3,585	+13,417

Financial Markets

	Friday 7/31/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.22%	+ .34	+ .31
180-Day Bills†	6.41	+ .19	+ .41
Longest Bills†	6.81	+ .10	+ .70
Recent Issues:			
7⅝S 7/31/89	7.59	NA	
7⅞S 6/30/91	8.09	+ .10	
8½S 5/15/97	8.63	+ .07	
8¾S 5/15/17	8.88	+ .05	
Municipals:			
Bond Buyer–20 Bond Index* (7/30/87)	7.73%	+ .01	+ .19
Blue List Total ($ Million)	$1,783	+ $276	–$ 493
30-Day Visible Supply ($ Million)	$1,575	– $214	–$3,078
Total	$3,358	+ $ 62	–$3,571
Corporates:			
Moody's Aa Composite (7/30/87)	9.78%	+ .09	+ .47
30-Day Visible Supply ($ Million)	$2,810	– $207	–$ 740
Stocks:			
Dow-Jones Averages:			
Industrials	2,572.07	+ 86.74	+808.43
Transportation	1,076.66	+ 24.24	+363.66
Utilities	201.75	+ 1.84	– 1.53
65 Stocks	951.32	+ 25.96	+268.46
N.Y.S.E. Composite Index	178.64	+ 4.95	+ 43.35
N.Y.S.E. Avg. Daily Vol. for Week (000's)	182,142	+ 11,858	+58,512

*34% Taxable equivalent 11.71%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/31/87	Week Ago
Overnight	6.44%	6.38%
1 month	6.63	6.69
3 month	6.88	6.94
6 month	7.13	7.13
1 year	7.56	7.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.30%	8.30%
Long Term (10 yrs.)	9.04	9.04

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/31/87)	Currency Per U.S. $	Week Ago
Canada	1.3317	1.3327
France	6.1760	6.1790
Germany	1.8552	1.8565
Italy	1344.30	1343.75
Japan	149.55	150.45
Mexico	1419.00	1407.00
Switzerland	1.5375	1.5375
U.K.*	1.5935	1.6035

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/31/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.2%	–2.6%

July 1986. Continuing fears of escalating hostilities in the Persian Gulf and larger than anticipated output cutbacks due to summer maintenance programs in the North Sea oil field are expected to keep prices up in the near term. As for non-oil commodities prices, the Commodity Research Bureau reports that two-thirds of the raw industrial commodities it tracks are experiencing greater price rises in the latest six-month period than during the previous half-year interval; overall, this index is up nearly 25 percent in the past year!

Other measures of inflation are also showing that price increases are accelerating. One of these is the Manufacturers Hanover Cost of Living Index. This index more accurately reflects people's attitudes toward inflation because it excludes the big-ticket items which are purchased infrequently but are included in the CPI every month. More emphasis is placed on smaller items which are bought many times during a month and whose price changes, therefore, have a greater impact on consumers' wallets. Over the past 12 months, the CPI has risen by 3.8 percent but the MH Cost of Living Index has jumped by 5½ percent (see chart on page 1)!

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/29/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	213.075	– 3.085	+20.682
Loans to Depository Inst.	.796	+ .289	+ .050
Float	.564	– .055	– .012
Total Reserve Bank Credit	230.352	– 2.584	+20.579
Treasury Deposits with Federal Reserve Banks	3.872	– 1.444	+ .010
Currency in Circulation	215.462	– .740	+15.731
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	176.935	– 1.507	+25.296
	7/29/87		
Member Bank Reserves:			
Total Reserves Held	57.063	– 1.443	+ 7.125
Excess (Deficiency)	.958	+ .473	– .159
Net Free Reserves	.439	+ .389	– .270

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (7/20/87)	748.3	+ 0.9‡	+ 10.9‡
M2 (June '87)	2,843.2	+ 2.6	+ 6.6
M3 (June '87)	3,570.1	+ 5.3	+ 7.0
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 7/31/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.09%	6.17%	6.46%
* Federal Agencies	6.55	6.65	6.77
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.36	6.52	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.70	6.95	7.35

‡Finance Company Paper—Prime

5- 14 days	6.50%
15- 29 days	6.50
30- 59 days	6.55
60- 89 days	6.55
90-179 days	6.71
180-239 days	6.65
240-270 days	6.65

‡* Bankers' Acceptances

Sep.	6.54%
Oct.	6.54
Nov.	6.62
Dec.	6.64
Jan.	6.72
Feb.	6.72

‡Industrial Paper—Prime

30- 89 days	6.60%
90-120 days	6.65

†Federal Funds Effective Rate 6.78%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87n	$ 4,449	$ 4,378r	$ 4,212r
Gross National Product (1982 Dollars)*	2nd Q'87n	$ 3,796	$ 3,772r	$ 3,705r
Percent Change, Annual Rate	2nd Q'87n	2.6	4.4r	0.6r
Change in Consumer Prices*	Jun '87n	4.8% (1)	3.6% (1)	4.8%
Change in Producer Prices*	Jun '87	2.4%	3.6%	2.4%
Civilian Employment (Thousands of Persons)†	Jun '87	112,257	112,447	109,613
Unemployment as % of Civilian Labor Force†	Jun '87	6.1%	6.3%	7.1%
Personal Income*	Jun '87n	$ 3,731	$ 3,718r	$ 3,528r
Leading Indicators Composite Index (1967=100)†	Jun '87n	190.4	188.9r	178.3r
Industrial Production Index (1977=100) †	Jun '87	128.2	128.0	124.2
Net Change in Consumer Installment Credit †	May '87	–$ 0.56	$ 3.68	$ 4.24
U.S. Merchandise Trade Balance	May '87	–$ 14.40	–$ 13.32	–$ 13.13
Plant and Equipment Expenditures*	3rd Q'87	$397.06(a)	$392.02(a)	$374.55
Private Housing Starts (Thousands of Units)*	Jun '87	1,590	1,602	1,842
New Construction Expenditures*	May '87	$ 398.6	$ 397.3	$ 374.5
Total Business Inventories †	May '87	$ 670.4	$ 665.9	$ 652.9
Total Business Sales †	May '87	$ 445.2	$ 444.4	$ 417.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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Performance

American-Italian Pasta Company
a joint venture between
Richard Thompson and FinPetrini S.p.A.
$22,233,000
13-month construction loan converting to a 5-year term loan
for a
Durum Wheat Mill and Pasta Production Facility
The CIT Group/Equipment Financing's Project Finance Division structured and provided the financing for the above transaction.
Comdisco, Inc.
$10,000,000
Debt Funding on Lease Transactions
for
Data Processing Equipment
The CIT Group/Equipment Financing's Chicago office provided the financing for the above transactions.
Affiliated Food Stores, Inc.
$8,613,000
Leveraged Lease
for
Tractors and Trailers
The CIT Group/Equipment Financing's Boston office provided the debt financing for the above transaction with America Finance Group, Inc. as lessor.
Appalachian Regional Healthcare, Inc.
$4,747,000
Loan and Security Agreement
for
Medical Equipment
The CIT Group/Equipment Financing's Cleveland office provided the debt financing for the above leveraged lease with Financial Investments Associates, Inc. as lessor.
Carlisle Construction Company, Inc.
$4,300,000
Line of Credit
for
Cranes and Excavating Equipment
The CIT Group/Equipment Financing's Columbus office structured and provided the financing for the above transaction.
Aircraft Trading Center (A.T.C.)
$2,600,000
Loan Agreement
for
Corporate Aircraft
The CIT Group/Equipment Financing's Miami office structured and provided the financing for the above transaction.

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